

K-12 Education

Focus On Student Achievement

California's academic standards are among the highest in the nation. In classrooms throughout the state, students are being taught a rigorous curriculum based on these standards. Governor Schwarzenegger is firmly committed to continuing standards-based reforms. To this end, the May Revision proposes the following major initiatives:

- Expansion of Class Size Reduction
- Teacher Recruitment, Retention, and Recognition Block Grant
- Supplemental Instruction for the High School Exit Exam
- Expanding Beginning Teacher Support

Meeting the Challenges Of The No Child Left Behind Act Of 2001

More than ever California supports the goals of the federal No Child Left Behind Act of 2001: raise student achievement across the board, narrow and then close the achievement gap and ensure that each child has a highly qualified teacher. Accountability and transparency continue to be crucial elements to improve student and school academic performance.

The federal government has recognized that accountability systems which are excessively rigid will break from want of adequate flexibility. The Governor, in conjunction with the State Department of Education, and the State Board of Education, will work with federal authorities to align California's accountability system with the national accountability system in a transparently fair manner.

We will do so while maintaining intact our academic standards, acknowledged as among the highest in the nation.

Change In Total K-12 Funding

2004-05	\$207.0 million
2005-06	\$385.4 million

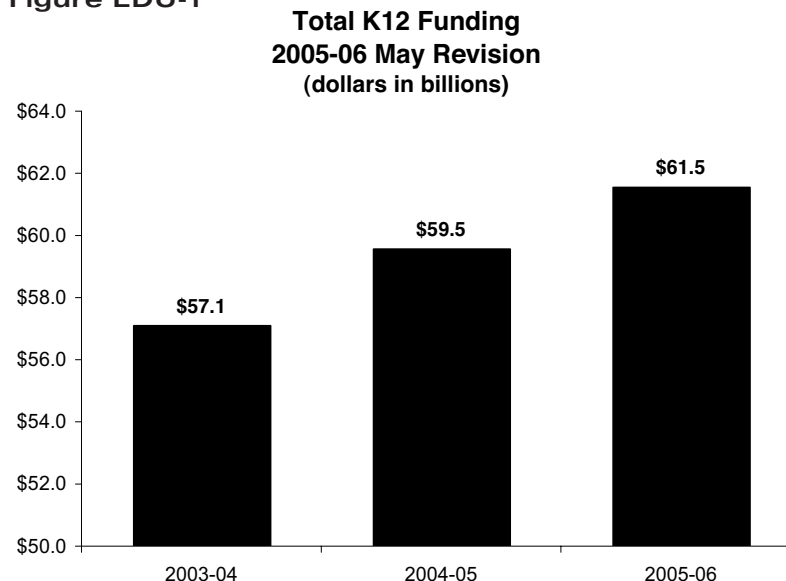
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The total of funding from all sources available to kindergarten through grade 12 (K-12) education continues to increase. For 2004-05, the May Revision reflects an increase of \$207 million from the Governor's January Budget level of \$59.3 billion. For 2005-06, an increase of \$385.4 million brings total funding to \$61.5 billion. From 2004-05 to 2005-06, total General Fund support increases \$1.8 billion, local property taxes increase by \$186.3 million, and federal funds grow by \$16.9 million.

Also included in the May Revision, but not in these totals, is \$251.8 million in prior year Proposition 98 settle-up.

Funding per pupil from all sources for 2005-06 relative to the Governor's January Budget increases \$117, from \$10,084 to \$10,201. Revised per pupil funding of \$9,940 in 2004-05 represents an increase of \$76 from the Governor's January Budget level of \$9,864. The revised year-over-year per pupil increase is now \$261, rather than the \$220 estimated as of the Governor's January Budget.

Figure EDU-1



Proposition 98 Guarantee

2004-05	\$46,941.3 million
2005-06	\$49,967.6 million

Faced with continuing structural fiscal constraints, the Governor's January Budget maintained 2004-05 Proposition 98 appropriations for K-12 schools and community colleges at the same level reflected in the 2004 Budget Act. However, for 2005-06, the Governor's January Budget included an increase of approximately \$2.9 billion above that level, bringing total Proposition 98 spending to nearly \$50 billion.

The May Revision maintains Proposition 98 appropriations, K-12 schools, and community colleges at the level proposed in the Governor's Budget for 2005-06, despite a reduction in the minimum guarantee calculation. Since the release of the Governor's January Budget, changes in population, General Fund revenues, and per capita personal income have resulted in the Proposition 98 formula going from a Test 2 to a Test 3 calculation and a resultant \$509.3 million decrease in the minimum required for the Proposition 98 guarantee for 2005-06. However, rather than reduce appropriations to this lower minimum guarantee, the May Revision maintains the higher level of total Proposition 98 appropriations. The May Revision also provides \$251.8 million towards prior year Proposition 98 settle-

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up obligations owed for the 1995-96 and 1996-97 fiscal years. These funds are proposed for one-time activities associated with various initiatives, described below, and are in excess of what the Governor's January Budget had provided.

In addition, as a result of revised estimates of the shift in property taxes resulting from the Vehicle License Fee backfill, the amount of General Fund necessary to maintain the total Proposition 98 funding at the Governor's Budget level increases by \$283.5 million.

Changes in Proposition 98 factors similarly result in the 2004-05 minimum guarantee being \$141.9 million lower than estimated in the Governor's January Budget, with the General Fund contribution decreasing by \$114.5 million mostly due to changes in Average Daily Attendance.

Figure EDU-2

Proposition 98 January vs. May Revision (Dollars in thousands)

2004-05	January Estimates	May Revision	Change
General Fund	\$34,123,805	\$34,009,289	-\$114,516
Local Revenue	12,959,387	12,932,043	-27,344
Total Guarantee	\$47,083,192	\$46,941,332	-\$141,860
2005-06	January Proposal	May Revision	Change
General Fund	\$36,532,334	\$36,815,833	\$283,499
Local Revenue	13,435,286	13,151,787	-283,499
Total Guarantee	\$49,967,620	\$49,967,620	\$0
Settle-Up Payments	0	\$251,811	\$251,811
Total Funding Including Settle-Up	\$97,050,812	\$97,160,763	\$109,951

K-12 Education Proposition 98 Funding

2004-05 \$42,070.4 million

2005-06 \$44,644.4 million

The May Revision reflects a Proposition 98 General Fund increase of \$2.4 billion, and a local revenue increase of \$185.7 million, over revised 2004-05 levels for K-12 education. Total Proposition 98 General Fund allocations of \$33.3 billion for K-12 education now represent 40.5 percent of the state's State Appropriation Limit (SAL) General Fund revenues.

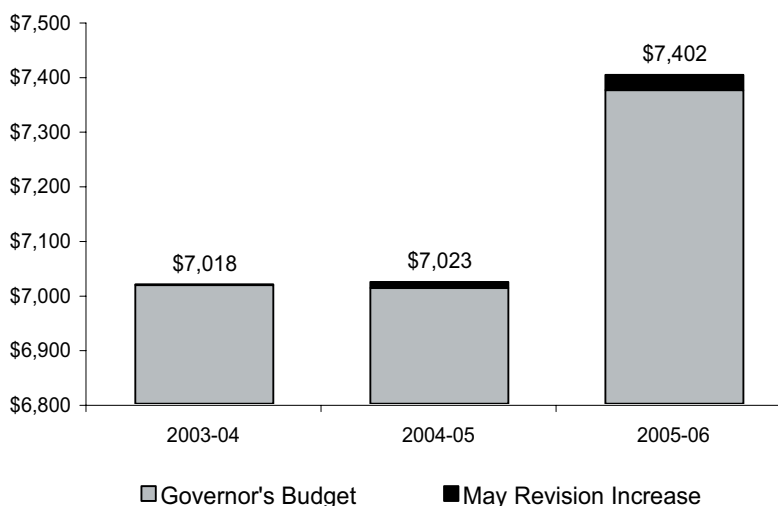
Funding per pupil from Proposition 98 sources for 2005-06 relative to the Governor's January Budget increases \$28, from \$7,374 to \$7,402. Revised per pupil funding of \$7,023 in 2004-05 represents an increase of \$11 from the Governor's Budget level of \$7,012. The revised year-over-year per pupil increase is now \$379, rather than the \$362 estimated as of the Governor's January Budget.

Achieving High Standards

The May Revision builds on the initiatives introduced in the Governor's January Budget. Significant new funding is allocated to initiatives included in the Governor's January Budget such as Career Technical Education, Smaller Learning Environments, School Nutrition, and Physical Education. In addition, funding is added for new initiatives such as teacher recruitment and training, class size reduction, and supplemental instruction for students who have failed or are at risk of failing the high school exit exam.

Figure EDU-3

Proposition 98 K-12 Per Pupil



Teacher Recruitment, Retention, and Recognition

The May Revision provides \$49.5 million in one-time Proposition 98 prior year settle-up funds for a block grant to allow schools to recruit and retain teachers and principals in schools in the bottom three deciles, based on 2004 Academic Performance Index (API) results. This block grant would be used for purposes such as recognition pay, staff development, and teacher or principal mentoring, among other things. While one-time funds are used for this purpose, the Administration proposes to evaluate program implementation to determine the appropriate focus and magnitude of ongoing funding in subsequent budgets. This funding is subject to the enactment of legislation for this purpose during the 2005-06 Regular Session.

Expanding Beginning Teacher Support Through The Teacher Credentialing Block Grant

The May Revision provides \$30 million in one-time Proposition 98 prior year settle-up funds to expand the Teacher Credentialing Block Grant to provide additional services for teachers beyond the first and second years of teaching. The amount proposed would provide funding for an additional 8,100 teachers. While one-time funds are used for this purpose, the Administration proposes to evaluate program implementation to determine the appropriate focus and magnitude of ongoing funding in subsequent budgets. This funding is subject to the enactment of legislation for this purpose during the 2005-06 Regular Session.

Class Size Reduction Expansion

The May Revision provides \$175.4 million (\$123 million in ongoing Proposition 98 funding and \$52.4 million in settle-up funding) to expand the class size reduction program to additional classes for deciles 1, 2, and 3 schools. Approximately 2,400 schools will be eligible based on 2004 API scores. While some one-time funds are used for this purpose, the Administration proposes to evaluate program implementation to determine the appropriate focus and magnitude of ongoing funding in subsequent budgets. In addition, it is intended that some of the settle-up funding will be available to address facilities needs for participating schools.

Career Technical Education For Grades 7 And 8

The May Revision proposes \$30 million in one-time Proposition 98 prior year settle-up funds to establish a pilot program for career exploration coursework in the 7th and 8th grades. This program would allocate grant funding to schools operating 7th and 8th grades for the purpose of introducing students to a variety of careers and professions. While one-time funds are used for this purpose, the Administration proposes to evaluate program implementation to determine the appropriate focus and magnitude of ongoing funding in subsequent budgets. This funding is subject to the enactment of legislation for this purpose during the 2005-06 Regular Session.

Smaller Learning Environments

Many recent studies have shown that smaller learning communities coupled with rigorous standards-based reforms have had great success in both motivating high school students to succeed academically and in effectively preparing them for college, work, and citizenship. Creating small learning communities provides for greater individualized attention and also builds a sense of community at a school. The May Revision includes \$1.6 million from prior year Proposition 98 settle-up funds for the first year of a three-year effort totaling \$5 million to encourage schools to establish these smaller learning environments, to be guided by legislation enacted on or before January 1, 2006. Funding decisions for the remaining two years can be made based on the effectiveness of the program.

Supplemental Instruction For The High School Exit Exam

The May Revision provides \$57.5 million in one-time Proposition 98 prior year settle-up funds for a Supplemental Instruction–High School Exit Exam Initiative to provide additional supplemental instruction to pupils who have failed or are at risk of failing the High School Exit Exam. It is intended that these funds supplement, not supplant, the existing Supplemental Instruction Program funds. While one-time funds are used for this purpose, the Administration proposes to evaluate program implementation to determine the appropriate focus and magnitude of ongoing funding in subsequent budgets. This funding is subject to the enactment of legislation for this purpose during the 2005-06 Regular Session.

Fruits and Vegetables For School Breakfast Programs

The May Revision provides \$18.2 million in one-time Proposition 98 prior year settle-up funds to increase the amount of fruits and vegetables served in the School Breakfast Program. The state annually provides approximately 172 million free or reduced priced breakfasts for qualifying pupils. This proposal would provide funds to ensure that school breakfasts include fruits or vegetables. Of the \$18.2 million, \$1 million will be set aside to provide breakfast start-up grants for schools that currently do not have breakfast programs. While one-time funds are used for this purpose, the Administration proposes to evaluate program implementation to determine the appropriate focus and magnitude of ongoing funding in subsequent budgets.

Physical Education Testing

The May Revision provides \$2.2 million in one-time Proposition 98 prior year settle-up funds for expanding physical fitness testing to grade 3 and notifying parents or guardians of pupil test results. Specifically, the May Revision provides \$650,000 to expand physical fitness testing to grade 3 so that pupils would be tested in grades 3, 5, 7, and 9. Additionally, the May Revision provides \$1.5 million to allow for grade 3, 5, 7, and 9 physical fitness testing results to be mailed to parents or guardians. While one-time funds are used for this purpose, the Administration proposes to evaluate program implementation to determine the appropriate focus and magnitude of ongoing funding in subsequent budgets.

Discretionary Funding For Schools

The May Revision includes a \$2.2 billion increase in discretionary funding for schools. This includes a \$83.8 million increase for attendance growth and a \$1.8 billion cost of living adjustment (COLA). In addition, the May Revision continues to include \$328 million to restore almost half of the outstanding deficit factor owed as a result of reductions to apportionments made by the prior Administration.

Categorical And Block Grant Program Transfer Flexibility

To provide school districts with greater flexibility in meeting the educational goals of those students with the greatest needs, the May Revision includes an amendment to Control Section 12.40 to increase flexibility provisions to allow up to 50 percent of former mega-item programs to be transferred out to other specified programs and transfers-in not to exceed 150 percent of the amount of state funding allocated for that program in the fiscal year. Further, the Administration is proposing legislation that would align the transfer provisions for four of the six block grants created by AB 825 (Chapter 871, Statutes of 2004) with the proposed increase in transfer amounts.

Other Major Budget Adjustments

Attendance Changes

The May Revision includes an estimated 2004-05 K-12 average daily attendance (ADA) growth of 0.52 percent, down from the 0.97 percent in the Governor's Budget. General Fund costs for school district and county office of education revenue limits decrease by \$114.5 million, resulting primarily from lower than expected ADA figures. The call on the General Fund, however, is also increased by lower than expected local property tax revenue. In 2005-06, the revised ADA growth rate is down from 0.79 percent to 0.69 percent (approximately 32,000 ADA lower than the January estimate). The total number of ADA is estimated to be 5,990,000 in 2004-05 and 6,031,000 in 2005-06.

Cost Of Living Adjustment Changes

The May Revision includes an additional \$113.1 million to fund an increase in the estimated Cost of Living Adjustment (COLA) factor, from 3.93 percent to 4.23 percent. This COLA factor is set by statute to be based on the State and Local price deflator, not the consumer price index, which would be lower. The result requires adjustments of \$78 million for apportionments, \$10.1 million for special education, \$4.7 million for K-3 class size reduction, and \$3.9 million for various child care programs.

Revenue Limits

Revenue limit funding constitutes the basic funding source for classroom instruction. The May Revision provides a net decrease compared to the Governor's January Budget of \$2.4 million to school district and county office of education revenue limits, which includes a decrease of \$307.2 million in anticipated ADA growth, an increase of \$79.8 million due to a change in the COLA factor from an estimated 3.93 percent to an actual 4.23 percent, and an increase of \$225 million General Fund to account for revised local revenues.

Deferred Maintenance

The May Revision provides an additional \$522,000 for the Deferred Maintenance Program above the level proposed in the Governor's January Budget. This brings the funding level for the Deferred Maintenance Program to \$267.9 million and provides full funding of the state's anticipated share.

Special Education

The May Revision maintains the year-over-year state aid funding commitment to special education. It provides a net General Fund increase of \$3.5 million and a net decrease of \$4.6 million in federal funding under amounts proposed in the Governor's January Budget. These changes include adjustments for growth and an increase to 4.23 percent in the COLA. The total year-over-year increase

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in federal Special Education Funds is \$59.9 million. These funds are proposed to be allocated as follows: \$1.6 million for various state operations needs (State Special Schools transportation, Mental Health and Non-Public Schools (NPS)/Licensed Care Institutions (LCI) Monitoring), \$39.3 million as an augmentation to the base level of funding for Special Education Local Planning Areas (SELPAs), \$4 million for the contractual provision of mental health services, and the remaining \$15 million to increase the current year NPS/LCI funding level.

Individuals with Disabilities Education Act Required Mental Health Services

The May Revision includes \$190 million for special education mental health services. This is an increase of \$90 million over the Governor's January Budget proposal. The Administration also proposes to repeal the mandate on county mental health agencies (CMH) for the provision of mental health services related to individualized education plans, allow SELPAs to contract with CMHs to provide these services, and amends Chapter 482, Statutes of 2004 (SB 1895), to ensure that special education pupils continue to have access to appropriate mental health services. (Counties will receive an additional \$90 million over the January budget on a one-time basis to help with the services provided to this population that might not be picked up by school districts.)

The May Revision continues to provide \$100 million in special education funding for mental health services to SELPAs as required by the Federal Individuals with Disabilities Education Act. Of this funding, \$35 million (\$4 million of which is specifically targeted for the provision of mental health services and \$31 million of the general funds to provide pre-referral mental health services for children with exceptional needs) is Proposition 98 General Fund and \$65 million is in federal funds. Additionally, \$90 million in non-Proposition 98 General Fund is allocated to CMHs to fund prior mandate claims. It also is intended that the State Controller will audit CMH mandate claims to determine both the appropriateness of prior claims and distinguish educationally necessary claims from those that are not educationally necessary on a going-forward basis.

Accountability

The federal No Child Left Behind (NCLB) Act requires states to ensure that all schools and school districts are meeting "adequate yearly progress" benchmarks. If a Title I school or school district fails to make adequate yearly progress for two consecutive years, it is identified as Program Improvement and becomes subject to interventions. Currently, there are 144 districts and at least 1,620 schools identified as Program Improvement.

The May Revision proposes \$154.5 million in federal NCLB grant carryover funds from a variety of programs to assist schools and districts who have been identified as Program Improvement to build a foundation of activities and services that will bring their students, particularly those identified as limited English proficient, migrant, low-performing, or low income, to a level of academic skill defined as

proficient under NCLB. These funds shall be available for expenditure consistent with a plan submitted by the State Board of Education and approved by the federal government.

The Governor's Budget included \$45 million for a second cohort of schools to participate in the High Priority Schools Grant Program (HPSGP). Based upon revised estimates of available funding, the May Revision now proposes that up to \$60 million be made available for this purpose, with funds contingent upon legislation being enacted authorizing that cohort and clarifying the criteria and timeframes for participating schools to exit the program. Approximately \$10 million also is included to fund sanctions for HPSGP schools, contingent upon legislation defining those sanctions and authorizing the allocation of funding for that purpose.

Pupil Testing

In April 2005, the federal government denied California's waiver request to exempt English language learners in kindergarten and grade 1 from assessments of their progress in attaining English reading and writing skills. In order to comply with this NCLB requirement, the May Revision shifts \$1.4 million in federal Title III funds from state operations to local assistance for the development of reading and writing assessments for these students as part of the California English Language Development Test (CELDT).

Also related to the CELDT assessment, the May Revision includes \$2.2 million on a one-time basis from the Proposition 98 Reversion Account to cover overlapping contract costs resulting from the transition from the current California English Language Development Test contract, which is in the process of closing out, to the beginning of the new contract that was recently awarded.

Additionally, one position and \$100,000 in federal Title VI funds is provided for the Department of Education to support new workload for the Standardized Testing and Reporting Program (STAR) generated by anticipated new flexibility provisions from the U.S. Department of Education. This flexibility is expected to allow states to develop an alternate assessment for students who have been unable to reach grade level because of disabilities such as moderate mental retardation or severe emotional disturbance. This assessment would be geared to the approximately 2 percent of students for whom the California Alternate Performance Assessment (for students with significant cognitive disabilities) or the California Standards Tests (for most students) are not necessarily the most appropriate assessments.

Finally, \$2 million in federal Title I funds is provided for the State Board of Education to contract for an independent evaluation of whether California complies with NCLB assessment requirements. This evaluation also is required to comply with federal student monitoring requirements, and is expected to be a multi-year effort.

California Longitudinal Pupil Achievement Data System

The May Revision includes \$844,000 for state operations for the Department of Education for the development of a Request for Proposals in the next phase of the development of the California Longitudinal Pupil Achievement Data System database to allow for the longitudinal collection of student data.

Pupil Retention Block Grant And Supplemental Instruction Program Realignment

To allow for increased flexibility to transfer funds between supplemental programs, the May Revision removes the Low STAR or At-Risk of Retention for Grades 2-6 and the Core Academic, Grades K-12 supplemental instruction programs from the Pupil Retention Block Grant and places them in the Remedial Supplemental Instruction Program. This transfer would take \$86.3 million from the Pupil Retention Block Grant and place it in the Remedial Supplemental Instruction Program allowing flexibility to transfer the funds between the supplemental programs to ensure that demand is met.

Advancement Via Individual Determination

The May Revision proposes to increase funding for the Advancement Via Individual Determination Program by \$840,000 to rescind the across-the-board reduction proposed for the program.

Charter Schools Facilities Grants

The May Revision provides a total of \$28.5 million for charter school facility needs to provide sufficient funds to reimburse charters for facility costs incurred in 2004-05 and to provide additional funding for the 2005-06 fiscal year need. This funding includes \$9 million in one-time Proposition 98 Reversion Account funding for the Charter Schools Facilities Grant Program that will match a new federal Charter Schools Facilities Incentive Grants program administered by the California School Financing Authority (CSFA) which can be used for both construction of new facilities or for lease payments on existing facilities. The first two years of federal funding are provided in the amount of \$19.5 million in the CSFA budget, with one-half proposed to be used with the state match to fully fund the need for reimbursements for 2004-05 facility costs estimated by the Department of Education at over \$18 million per year. The remainder will be available to reimburse 2005-06 fiscal year costs.

High School Coach Training

The May Revision provides \$500,000 in one-time Proposition 98 prior year settle-up funds to implement a program that requires coaches involved in athletics, to attend training on the identification, risks, and effects of performance-enhancing substances in an effort to increase awareness and eliminate the use of performance-enhancing substances by student athletes. While one-time funds

are used for this purpose, the Administration proposes to evaluate program implementation to determine the appropriate focus and magnitude of ongoing funding in subsequent budgets.

California Local Education Accountability Program

The May Revision provides \$5.6 million in one-time Proposition 98 Reversion Account funding to provide grants to school districts participating in the California Local Education Accountability Reform (CLEAR) program, a voluntary pilot project providing flexibility for participating districts to plan and implement programs to increase pupil academic achievement and to meet accountability targets by delegating budgetary and academic decision-making and accountability to the school site level. The May Revision also proposes \$1.2 million in state operations funds to the State Board of Education to implement and oversee the CLEAR program.

Commission On Teacher Credentialing

2004-05	\$0
2005-06	\$2.7 million General Fund

The May Revision proposes \$6.4 million in expenditure reductions and \$2.7 million from the General Fund on a one-time basis to address structural imbalances in the Commission on Teacher Credentialing’s (CTC) Teacher Credentialing Fund (TCF) and the Test Development and Administration Account (TDAA). The adjustments include:

- -\$580,000 in printing, equipment, and other economies in operations costs in the TCF.
- -\$5.8 million, primarily for a technical adjustment to transition to revenue-only contracts in the TDAA and minor state operations cost reductions.
- \$2.7 million in General Fund augmentation for operating expenses.

The cost saving reductions and General Fund augmentation will enable CTC to perform its existing functions while the state continues to work on a more comprehensive solution to its budget imbalance.